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Yen Sits On The Sidelines During Currency Brouhaha

The yen appears to have a new, if familiar partner, in international currency markets: the dollar. In the week of September 13-19, during which the European Exchange Rate Mechanism became unglued, the values of the yen and the dollar vis-a-vis each other were virtually unchanged, continuing a pattern that has persisted for more than two months. An intergalactic traveler could have been forgiven for assuming that the linkages of currencies discussed so much that week must have featured the dollar and the yen rather than such European currencies as the pound sterling and the Deutsche mark.

Yen-dollar stability continued in mid-September in a pattern shaped over the summer. During July and August, for example, the yen varied between ¥123.4=$1.00 to ¥128.2=$1.00, a smaller percentage variation than the pound exhibited against the Deutsche mark in the week in which London suspended participation in the ERM. Ironically, the yen was free to float against the dollar during that time while, in principle, the pound-to-Deutsche mark relative value was supposed to be virtually fixed.

Of course, since the 1990 addition of the pound to the linkage between the Deutsche mark and most other European currencies in ERM, the variation in the value among the European currencies

nationwide network of manufacturing centers. The Bush administration, meanwhile, has threatened to veto the bill. While the amendment proposed by Rep. Walker incorporates several aspects of the economic recovery plan outlined by Mr. Bush early this year, many Republicans see in HR 5231, as drafted by Democratic lawmakers, a misdirected attempt to move federal government toward an assertive industrial policy.

On September 8 Gov. Clinton presented a manufacturing strategy that addresses some of his earlier competitiveness proposals as well as aspects of the U.S. Economic Leadership Strategy unveiled by Senate Democrats this July (see *JEI Report* No. 27B, July 17, 1992). The Democratic candidate's proposal provides a blueprint for shifting current research and development funds from defense to civilian uses. One element of this plan is to establish 170 new technology centers intended, in part, to facilitate the process of defense conversion. The manufacturing strategy also reiterates Gov. Clinton's intention to make permanent the R&D tax credit and to provide an investment tax credit. He also calls for further government support for research into new products and for export promotion.

After further consideration September 22 and 23 the House passed by a 287-122 vote the National Competitiveness Act. Yet at this late point in the congressional calendar the prospects for the bill becoming law are uncertain, even though the Senate passed a companion measure in late June. Moreover, partisan disagreement over the best way to help American companies compete internationally may continue to hamper HR 5231's progress. Given the concerns about U.S. competitiveness in both political camps, various solutions are certain to be discussed both during and after the presidential election campaign.

Margo Grimm

Economic Downturn May Highlight Attitudes Toward Japanese Working Women

The dichotomy between the current surplus of workers because of the economic downturn and the long-term shortage of labor, as implied by projected labor force statistics for 1995 and beyond, may put women and those who hire them in a quandary. Even though Japan's 1985 Equal Employment Opportunity Law says employers may not treat women differently from men in retirement or dismissal, news reports about how companies are handling the economic downturn through changes in staffing point to a disproportionate impact on women. Some reports, from the Japan Securities Dealers Association, for example, have hinted at layoffs predominantly of female employees. Other reports have described the job-hunting difficulties faced by young women planning to graduate next spring, who had hoped to pin down a job offer in the summer recruitment season. Last year, in fact, more men than women were hired for the first time since 1986. The male population in the prime years of hiring eligibility (ages 20-24) is 3 percent larger than the female population (and men outnumber women in all age groups until the 45-49 age group), but the edge in hiring new employees of all ages was 8.6 percent in favor of men last year.

Further complicating attitudes about women working is the government's concern about Japan's shrinking fertility rate, now at a low 1.53 children that a Japanese woman currently of child-bearing age would be expected to bear in her lifetime. A fertility rate much below 2.0, with little in-migration of laborers, translates to future labor shortages — and the associated concerns about employee contributions to social security and national health insurance in a society where those over age 65 will make up more than one-fourth the population by the year 2020.

Before the Japanese economy began to feel the effects of a slowdown amid rising inventories and falling investment, the government had encouraged enterprises to address the prospective labor shortage by hiring more women and retaining older employees. The government also, of course, hoped some women would stay home and have children, since a certain number of children are necessary as future workers who can contribute to the support of their parents and others of the older generation.

Of interest to those observers of working women in Japan is whether the current economic downturn will lead to an upswing in the birth rate. A study in the late 1970s by economists William Butz and Michael Ward for Rand Corp. indicated that when American women's pay dropped below the "opportunity costs" of staying home and having children then, indeed, fertility rates could be expected to increase. Writing in the 1979 *American Economic Review*, the authors noted that at business cycle peaks women's wages tend to rise, which increases the incentives for women to stay on the job rather than dropping out of the workforce, even temporarily, to have children. Conversely, the poor job prospects of a recessionary economy provides the incentives for women to consider having children, particularly if they expect family income to be depressed only temporarily.

Since this model points to the possibility of higher fertility rates in times of recessions and suggests that a change in women's income levels is one of the components that influence a typical couple's decision on whether or not to have children at a particular time, some analysts have suggested that Japan's fertility rate, indeed, may climb in next year's statistics. Japan's population actually increased in 1991 by 0.35 percent, with the number of births rising by 11,318 over those recorded in fiscal 1990, the first upswing since the Ministry of Home Affairs began following the statistics in 1979. But the fertility rate decreased, as it has been doing since 1984.

Among the factors cited in Japan for the declining fertility rate are: a delay in the ages at which couples marry and decide to ~~have~~ children; a growing interest among increasingly well-educated Japanese women to continue working after marriage or perhaps not marry; and economic necessity to meet the high costs of rearing children in a country where houses are small and top-of-the-line education costly but essential for future success. Some analysts also have pointed to possible dual disinclinations: of commuting husbands, who spend little time at home and feel overworked, and of overburdened wives, who may feel trapped by the rigors of perhaps a parttime job plus household and child care or care of parents without help from a husband.

The current economic downturn could alter these factors in several ways. In that companies are slashing overtime hours because of recession-motivated attention to costs, some commuting husbands might spend more time at home. This result in itself could have both positive and negative effects on the fertility rate, depending on whether the husband contributes to housework and child care or is considered a "wet autumn leaf" that sticks to his wife, adding to her duties in the home. (See *JEI Report* No. 25A, July 3, 1992 for details regarding Japanese men's work and leisure activities.) Another recession abatement effort suggests a likely damper on the prospects for an upswing in the fertility rate, however. In this case, companies' actions to shift workers either to other firms that need staff or to another location within the same company could increase the commute for spouses, particularly if these positions are in another city. In the latter case home visits could be for the weekend instead of nightly. Most of these transfers affect men, since few women are in the employment track that encompasses job transfers and promotions toward upper-level management. Regardless, the impact of the transfers on the fertility rate most likely would be negative.

If the findings of Messrs. Butz and Ward characterize conditions in Japan today, some of the other steps being taken to trim labor costs could have a silver lining in the eyes of a government hoping to reverse the downward movement of Japan's fertility rate. Conventional wisdom suggests that couples would react to corporate Japan's plans to hire fewer people, cut bonuses and slash wages among managers (all of which erode income security) by not rushing to increase family size. If these actions are seen as temporary inconveniences, however, many couples might decide that the current downturn is a good time for the wife to spend more time at home, bearing and raising children.

The economic downturn comes at a particularly critical time for assessing the various impacts from the 1985 Equal Employment Opportunity Law and whether the law has promoted change. Since 1985 there has been an increase in the number of women attending college, for example. In 1990 women made up 30 percent of new university enrollees, while they numbered only 25.3 percent in 1985 and slightly less than 23 percent in 1979. Those who entered the job market when the law went

into effect also are now at a prime age to begin having children. Japanese women increasingly have delayed marriage, with the average bride being 25.9 years old in 1990 as compared to 25.2 in 1980 or 24.2 in 1970. Along with this delay has come a shift toward more women bearing children at a later age. In 1970 nearly half of all mothers were in the 25-29 age bracket with 26.5 percent aged 20 to 24

Relationship Between State of Economy, Women Working, Fertility Rate

Business Cycles by Month, Year	State of Economy	Year	Women Workers as Percent of All Workers	Female Workers as Percent of Women, aged 15+	Specific Birth Rate (Fertility Rate)
6/1958 to 12/1961	Expansion	1960	40.7	54.6	2.00
		1961	40.6	54.3	1.96
12/1961 to 10/1962	**Recession**	**1962**	**40.3**	**53.4**	**1.98**
10/1962 to 10/1964	Expansion	1963	40.0	52.0	2.00
		1964	39.9	51.1	2.05
10/1964 to 10/1965	**Recession**	**1965**	**39.7**	**50.6**	**2.14**
10/1965 to 7/1970	Expansion	1966*	40.0	50.9	1.58
		1967	40.0	51.2	2.23
		1968	39.6	50.7	2.13
		1969	39.4	50.1	2.13
		1970	39.3	49.9	2.13
7/1970 to 12/1971	**Recession**	**1971**	**38.7**	**48.8**	**2.16**
12/1971 to 11/1973	Expansion	1972	38.1	47.8	2.14
		1973	38.4	48.2	2.14
11/1973 to 3/1975	**Recession**	**1974**	**37.6**	**46.5**	**2.05**
3/1975 to 1/1977	Expansion	1975	37.4	45.7	1.91
		1976	37.4	45.8	1.85
1/1977 to 10/1977	**Recession**	**1977**	**38.0**	**46.6**	**1.80**
10/1977 to 2/1980	Expansion	1978	38.4	47.4	1.79
		1979	38.6	47.6	1.77
2/1980 to 2/1983	**Recession**	**1980**	**38.7**	**47.6**	**1.75**
		1981	**38.7**	**47.7**	**1.74**
		1982	**39.0**	**48.1**	**1.77**
2/1983 to 6/1985	Expansion	1983	39.5	49.0	1.80
		1984	39.6	48.9	1.81
		1985	39.7	48.7	1.76
6/1985 to 11/1986**	**Recession**	**1986**	**39.8**	**48.6**	**n.a.**
11/1986** to --***	Expansion	1987	39.9	48.6	1.69
		1988	40.1	48.9	1.66
		1989	40.4	49.5	1.57
		1990	40.6	50.1	1.54
		1991	40.7	50.6	1.53

*The year 1966 coincides with the 60-year cycle superstitiously referred to as "hinoeuma," or "c-horse;" females born in that year are said to have an ominous fate. Many women prefer not to risk imposing that fate on daughters and, thus, try to avoid giving birth that year.

**Unofficial

***The Economic Planning Agency has not determined when the latest expansion ended.

Sources: Economic Planning Agency, Ministry of Labor and Ministry of Health and Welfare

and 18.5 percent aged 30 to 34; by 1990 the percentage of younger mothers had dropped to 15.7 percent while the group of mothers aged 25 to 29 had shifted to 45.1 percent and those aged 30 to 34 had increased to 29.1 percent.

Women aiming at a career and who came into the workforce soon after the EEO law took effect might have been expected to resist layoffs because of their protection under the 1985 law, but they are now of an age where they might want to take time off to bear children. Given the tough economic times, companies are unlikely to encourage these women to stay on the job, particularly if they were hired into what some analysts have described as a corporate reaction to the equal employment law: a two-track system. This system involves one career track focused on promotion opportunities that require potential job transfers and the other is considered a lower-level, noncareer track that serves primarily women. News reports have indicated that young women trying to enter the job market this year were being encouraged to take jobs with lower salaries and less challenge. Such jobs are easier to leave, if a woman decides to become pregnant, a situation that coincides with the findings of Messrs. Butz and Ward.

These findings are not readily supported by simple labor force participation rates for Japanese women and the downward trend in fertility rates, which do not appear to have a strong connection to past recessions in Japan (see Table). Application of the Butz-Ward model to Japan in the current downturn is made more difficult because of the increasing numbers of educated women in Japan, the adoption of the equal employment opportunity law and its potential changes, and past trends among Japanese women. These trends show a surge in employment among young women who work for a few years after whatever level of schooling they achieve then drop out of the workforce, either after marrying or — more frequently — after becoming pregnant. The strong tendency of Japanese women to reenter the workforce in parttime jobs also could impact this model, since adjustments to parttime hours are another way in which companies can deal with recessions. Future changes in the fertility rate obviously will be subject to a plethora of variables.

Pat Murdo

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The views expressed in this report are those of the authors and do not necessarily represent those of the Japan Economic Institute.